BEFORE THE

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

APPLICATION OF DOMINION ENERGY SOUTH CAROLINA, INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES	)))))	**DOCKET NO. 2020-125-E**

SETTLEMENT TESTIMONY

OF

MARK E. GARRETT

ON BEHALF OF

THE UNITED STATES DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES ("DOD-FEA")

July 7, 2021

ELECTRONICALLY FILED - 2021 July 7 6:16 AM - SCPSC - Docket # 2020-125-E - Page 2 of 11

TABLE OF CONTENTS

I. WITNESS IDENTIFICATION AND PURPOSE OF TESTIMONY

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Mark E. Garrett. My business address is 4028 Oakdale Farm Circle, Edmond, Oklahoma 73013.

Q: WHAT IS YOUR PRESENT OCCUPATION?

A: I am the President of Garrett Group Consulting, Inc., a firm specializing in public utility regulation, litigation, and consulting services.

Q: DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET ON NOVEMBER 10, 2020?

A: Yes, and a description of my qualifications was filed with that testimony.

Q: ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?

A: I am appearing on behalf of the United States Department of Defense and All Other Federal Executive Agencies ("DoD-FEA").

Q: WHAT WAS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A: The purpose of my testimony was to address various revenue requirement and rate design issues identified in the rate case application filed by Dominion Energy South Carolina, Inc. ("DESC" or the "Company"). In its filing, DESC was requesting a $178.2 million increase in rates. In my testimony, I provide recommendations and adjustments to the

Company's requested revenue requirement that would have reduced the requested increase to about $26.9 million.

Q: WHAT IS THE PURPOSE OF YOUR STIPULATION TESTIMONY?

A: The purpose of my testimony now is to support the Stipulation and recommend that the Commission accept it. In this testimony, I address many of the major issues in the case and show how the stipulated agreement on these issues is a reasonable result.

II. <u>REVENUE REQUIREMENT ISSUES</u>

II. A. <u>SUMMARY OF REVENUE REQUIREMENT RESULTS</u>

Q: PLEASE PROVIDE A SUMMARY OF THE REVENUE REQUIREMENT RESULTS IN THE STIPULATION?

A: The Stipulation results in an overall revenue requirement increase of approximately $35.6 million. This is down $142.6 million from the requested increase of $178.2 million, which is an 80% reduction in the requested level.

Q: IS THIS A REASONABLE RESULT IN YOUR OPINION BASED ON THE TESTIMONY YOU FILED IN THIS CASE?

A: Yes. I filed testimony supporting a revenue requirement increase of $26.9 million, which was a decrease of $151.3 million from the requested $178.2 million and an 85% reduction in the requested level. In my opinion, a $35.6 million increase, which is an 80% decrease in the requested level of increase is a reasonable result compared with our recommendations.

II. B. <u>CASH WORKING CAPITAL RESULTS</u>

Q: WHAT TESTIMONY DID YOU PROVIDE REGARDING THE COMPANY'S CASH WORKING CAPITAL ("CWC") ADJUSTMENT?

A: In my direct testimony, I said that DESC is requesting $111 million for cash working capital for the South Carolina retail jurisdiction, based on using an approach for CWC referred to as the 45-day formula or the 1/8th method. This method is calculated by multiplying operating expense account balances by 12.5%, which is 1/8th of a year or 45 days (360/8=45 days). The method assumes that revenues are received, on average, 45 days after all expenses are paid. I pointed out that this is never the case. I also pointed out that a lead-lag study is the most accurate way to determine whether the utility or its ratepayers are providing the cash that pays the utility's bills. A lead-lag study compares the timing differences between the inflows of cash from revenues and the outflows of cash for each type of operating expense. I pointed out that this is the approach used in the vast majority of states. I recommended that the Commission adopt the policy that a lead-lag study is essential if a positive cash working capital requirement is requested. Without a lead-lag study, the cash working capital should be set at zero because a well-run utility should have a negative balance. I also pointed out that a lead-lag study would likely save ratepayers about $11.5 million per year.

Q: HOW WAS THIS ISSUE TREATED IN THE STIPULATION?

A: The Company has agreed to conduct a lead-lag study in its next rate case. Paragraph 15 the Stipulation states:

> 15. DESC agrees to conduct a lead-lag study to calculate working capital for use in its next electric general rate proceeding.

In my opinion, this a reasonable outcome for this issue.

II. C. <u>PROPERTY-RELATED UNPROTECTED EDIT AMORTIZATION</u>

Q: WHAT DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY REGARDING THIS ISSUE?

A: I testified that the Company is amortizing its property-related **<u>unprotected</u>** EDIT over the useful life of the associated property, which could be up to 50 years. I pointed out that unprotected EDIT could be amortized over any period the Commission chooses. I recommended a 4-year amortization.

Q: HOW WAS THIS ISSUE TREATED IN THE STIPULATION?

A: The parties agreed to amortize the property-related unprotected EDIT in an amount each year that would reduce the stipulated revenue requirement increase of $61.6 million to a net increase of $35.6 million.[1] This results in an amortization each year of about $26

1 See paragraphs 5 and 6 of the Stipulation.

million, which is approximately a 4-year amortization of the $99.5 million EDIT balance. This is a reasonable result in my opinion.

II. D. INCENTIVE COMPENSATION

Q: PLEASE PROVIDE A BRIEF DESCRIPTION OF INCENTIVE COMPENSATION IN THE STIPULATION.

A: At paragraph 16, DESC agrees to eliminate earnings-based incentive compensation from recovery in this case. In my direct testimony I set forth why earnings-based incentive payments should not be included in rates. I pointed out why earnings-based incentives benefit shareholders more than ratepayers. I also pointed out that this is the general treatment of incentive compensation across the country and that it is the preferred treatment in South Carolina as well.

Q: IS THIS A REASONABLE RESULT FOR THIS ISSUE?

A: Yes. The Stipulation eliminates earnings-based incentives and results in savings to ratepayers of about $5 million annually.[2]

II. E. STORM DAMAGE RESERVE

Q. PLEASE DISCUSS THE COMPANY'S REQUEST TO REINSTATE THE STORM DAMAGE REMEDIATION RIDER AND THE STORM DAMAGE RESERVE.

[2] See Attachment A, Adjustment No. 2.

A. In my direct testimony, I said that the Company is requesting a total increase of $18.6 million annually in retail rates for storm damages above the test year expense level; this increase consists of $8.8 million for past storm costs and $9.8 million of future costs. In my testimony, I pointed out why these increases were unnecessary and why this was a bad time to pre-fund a storm reserve.

Q: HOW DOES THE STIPULATION TREAT THESE COSTS?

A: The Stipulation effectively removes about half of the $8.8 million increase and all of the $9.8 million increase for future costs.[3] This is a reasonable result in my opinion.

II. F. TURBINE MAJOR MAINTENANCE

Q: PLEASE DISCUSS THE COMPANY'S REQUEST FOR THE TURBINE MAJOR MAINTENANCE ACCRUAL AND RESERVE ACCOUNT.

A: DESC requested that the annual accrual for turbine major maintenance expense be increased by $10.6 million from $18.4 million to $29 million annually, based on estimated costs for the period 2021 through 2028. The requested increase also includes maintenance costs associated with the recently acquired Columbia Energy Center ("CEC"), as authorized by Commission Order No. 2019-393.

Q: WHAT POSITION DID YOU TAKE ON THIS ISSUE?

A: In my testimony, I pointed out how the current accrual for major turbine maintenance has

[3] See Attachment A, Adjustments 19 and 20.

actually *decreased* the Company's regulatory asset for unrecovered maintenance costs over the last 8-year cycle. In other words, the current accrual has been more than enough over the past 8-year period. I also acknowledged that expenses would have to be increased for the Columbia Energy Center by an average annual amount of about $4.6 million. I also recommended another $1.0 million be added to the annual accrual overall. In all, I recommended an increase of $5.6 million compared to the Company's $10.6 million.

Q: HOW IS THIS ISSUE RESOLVED IN THE STIPULATION?

A: In my direct testimony, I recommended that the Company's requested major turbine maintenance expenses increase of $10.6 million be reduced by $5.0 million. The Stipulation reduces the increase by approximately $4.1 million.[4] This is a reasonable result in my opinion.

III. COST OF SERVICE / RATE DESIGN

III. A. RATE 23 AVAILABILITY

Q: WHAT WAS THE ISSUE REGARDING THE AVAILABILITY OF RATE 23?

A: The Availability Clause of Rate 23 limits the availability of this class to customers classified as manufacturing customers. I testified that tariffs are typically available to customers based on similar usage characteristics, with typical availability clauses reflecting the type of service being provided with metrics such as size or load factor to distinguish the type of load. I said that the Rate 23 Availability Clause is subjective and

[4] See Attachment A, Adjustment 22.

unduly discriminatory. I recommended that the Company revise the availability provisions of Rate 23 to include any customer using the Company's standard service for power and light requirements having a contract demand of 1,000 kW or more and an average annual load factor of 60% or higher based on On-Peak CP demand. This would base the availability of Rate 23 on the load characteristics of the customer rather than on the type of business the customer was in.

Q: WHAT IS THE STIPULATION PROVIDE WITH RESPECT TO RATE 23?

A: The Stipulation provides that the Company will make Rate 23 available to customers with a contract demand of at least 1,000 KW and an annual average load factor of 60%.

IV. COST OF CAPITAL

Q: WHAT DOES THE STIPULATION PROVIDE WITH RESPECT TO COST OF CAPITAL?

A: The Stipulation provides that rates in this proceeding shall be established based on a 9.5% return on common equity ("ROE") and a capital structure that includes 48.38% debt and 51.62% equity.[5]

Q: IS THIS CONSISTENT WITH THE COST OF CAPITAL RECOMMENDATIONS OF DOD-FEA?

A: Yes. Dr. Zhen Zhu provided testimony on behalf of DoD-FEA regarding cost of capital

[5] See Stipulation at paragraph 5.

issues. Dr. Zhu recommended an ROE of 9.1% and a capital structure of 47.44% debt and 52.56% equity.

Q: WHAT WAS THE COMPANY'S ORIGINAL RECOMMENDATION FOR COST OF CAPITAL?

A: The Company requested an ROE of 10.25% and a capital structure of 46.65% debt and 53.35% equity. In my opinion, the stipulated cost of capital established on a 9.5% ROE and a capital structure that includes 48.38% debt and 51.62% equity is a reasonable compromise in this case.

Q: DO YOU RECOMMEND THAT THE COMMISSION ACCEPT THE STIPULATION?

A: Yes.

V. <u>CONCLUSION</u>

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes, it does.